

STATEMENT OF DR. DAVID GRAVES
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BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
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Thank you, Mr. Chairman. My name is David Graves and I am President of the National Council of Farmer Cooperatives (NCFC). On behalf of NCFC and America's farmer cooperatives, I want to commend you and Congressman Stenholm for your leadership and for holding this hearing on the state of farmers working together for their mutual benefit.

We also want to commend Congressmen Sam Graves and Earl Pomeroy for their leadership as House co-chairs of the Congressional Farmer Cooperative Caucus and to express appreciation to all members of the Caucus for their interest and participation in this important farmer forum.

NCFC is a national association representing America's farmer cooperatives. There are nearly 3,000 farmer cooperatives across the U.S. whose members include a majority of our nation's more than 2 million farmers, ranchers and growers. These farmer cooperative businesses handle, process and market agricultural commodities and related products, furnish farm supplies, and provide credit and related financial services. Earnings from these activities are returned to their members on a patronage basis. Farmer cooperatives also provide jobs for nearly 300,000 Americans, many in rural areas, with a combined payroll of over \$8 billion.

The need for public policy to enhance the ability of farmers to join together successfully in cooperative efforts to improve their ability to earn income from the marketplace is more critical today than when Congress passed the Capper-Volstead Act and other measures in the 1920's to encourage and promote such efforts. In fact, it can be argued that farmers have even less relative market power today.

This chart, attached to my testimony, helps illustrate the challenge facing farmers today as they seek to improve their overall income from the marketplace. It shows how the farmer's share of the consumer food dollar -- the blue line -- has continued to decline to where it is now a record low of just 15 percent. At the same time, the farmer's share of net cash income derived from government support payments -- the green line -- has, though volatile, continued to reflect a rising trend. Even with improving grain, oilseed and livestock prices, direct government assistance is projected by USDA to account for over 30 percent of net cash farm income this year. Clearly, without such assistance as provided under the 2002 Farm Bill, the farm income picture would look very different.

There are many reasons for both of these trends. Further, it is highly likely that the current trends will continue without a change in policy to reflect modern national and international market conditions. The critical question is what can be done to help farmers be more successful in capturing a greater share of their income from the marketplace?

As farmers attempt to seek more income from the marketplace they are challenged by the new realities of a rapidly changing food and fiber system. The speed and breadth of change in the food, natural fiber and agriculture system in the last five years has been one of the most dramatic transformations in history. The path of globalization, new technology and an exploding equity market have fueled the transformation.

Farmers face rapidly emerging competition in the export markets and a rising tide of imported food products in the domestic market. In addition, the rapid consolidation throughout the food system has challenged traditional business structures and forced a reexamination, realignment and restructuring of business relationships from the combine to the consumer.

It is within this environment that public policy aimed at helping farmers join together in cooperative self-help efforts needs to be reexamined and strengthened. To begin this

process, we believe Congress and the Administration should focus on three major initiatives:

I. USDA Programs to help farmers help themselves through cooperative efforts should be revitalized and given the highest priority.

- A separate Agency should be established within USDA whose primary mission would be to carry out programs, including research and technical assistance, to encourage and promote cooperative self-help efforts. Such an agency existed prior to 1994. Congress and the Administration recently combined to establish the position of Assistant Secretary of Commerce for Manufacturing to give greater priority to the challenges facing the manufacturing sector. We believe the challenges facing farmers and their cooperatively owned businesses are critical and should be given a similar priority and standing.
- USDA research and technical assistance programs to assist farmers and their cooperatives should be specifically authorized and fully funded. These are now funded through USDA salaries and expense budget as part of the annual appropriations process, resulting in considerable uncertainty and lack of accountability.
- USDA's Value-Added Grant Program, which provides matching grants to farmers through cooperative efforts capitalize on new value-added opportunities, should continue to be funded at not less than \$40 million as contained in the 2002 Farm Bill.
- There should also be ongoing review of USDA and federal programs to ensure they continue to encourage and protect the ability of farmers to join together in cooperative self-help efforts.

II. The Federal Farm Credit Act should be modernized to ensure that farmers continue to have access to a competitive source of credit capital for their cooperatively owned businesses.

This change is especially needed in response to new and evolving state laws to provide farmers and their cooperatives with more flexibility in terms of how they organize and capitalize their businesses. Minnesota, the largest state in terms of number of farmer cooperatives, and Wyoming recently changed their cooperative statutes, and other states are looking at similar changes. In addition, the National Commission on Uniform State Laws has a project underway to determine whether to recommend adoption of a similar statute by all states as a uniform law.

The problem, however, is that existing cooperatives that choose to reorganize as well as new cooperative ventures formed under these new laws, do not satisfy federal law regarding eligibility requirements to borrow from CoBank, which itself is a cooperatively owned lender.

Legislation is needed to address this issue so that farmer cooperatives, including these newer generation cooperatives, continue to have as many choices as possible when it comes to seeking the financing and capital they need for the mutual benefit of their farmer members.

III. Current tax policy should be modified to provide farmer cooperatives with improved access to equity capital needed to modernize and expand, meet costly government regulations, and take advantage of new market opportunities for the benefit of their farmer members.

While we recognize this Committee does not have jurisdiction over such issues, we would like to take this opportunity to urge your support of such initiatives, including HR 1671 sponsored by Congressmen Wally Herger, Earl Pomeroy and Sam Graves to eliminate what is now an effective triple tax on farmer cooperative

dividends on capital stock under the Dividend Allocation Rule. Such an unfair tax penalty puts farmers and farmer cooperatives at a competitive disadvantage relative to other types of businesses whose dividends are taxed twice and makes it difficult to raise the equity capital needed. Additional tax incentives, such as tax credits, reductions and postponements, should also be considered to further promote farmer cooperative capital formation.

CONCLUSION

Mr. Chairman, strengthening the ability of farmers to join together in cooperative efforts is critical to any long term strategy to help farmers improve their ability to earn income from the marketplace; better manage their risk; capitalize on potential value-added market opportunities; and compete more effectively in a rapidly changing domestic and international marketplace.

NCFC and our membership look forward to working with this Committee in addressing this important need of America's farmers, ranchers and growers.

Thank you again, Mr. Chairman, for the opportunity to appear before you. This concludes my testimony, and I look forward to responding to any questions you or members of the Committee may have.